

NEW BRANCHES SCHOOL
Kent County, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2006

NEW BRANCHES SCHOOL
Table of Contents

For the year ended June 30, 2006

Financial Section

<i>Independent Auditor's Report</i>	<i>1</i>
<i>Management's Discussion and Analysis</i>	<i>3</i>
<i>Basic Financial Statements</i>	<i>9</i>
School-wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	16
Notes to Basic Financial Statements	17
<i>Supplemental Information</i>	
Individual Fund Statements and Schedules:	
General Fund	28
Comparative Balance Sheet	29
Comparative Schedule of Revenues	30
Comparative Schedule of Expenditures	31
Nonmajor Governmental Fund	36
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual: Food Service Special Revenue Fund.....	37

NEW BRANCHES SCHOOL
Table of Contents (Continued)

For the year ended June 30, 2006

Special Revenue Fund	38
Food Service Special Revenue Fund:	
Comparative Balance Sheet.....	39
Comparative Schedule of Revenues, Expenditures and	
Changes in Fund Balances	40
Independent Auditor's Report on Compliance and on Internal Control	
Over Financial Reporting Based on an Audit of the Financial Statements	
Performed in Accordance With <i>Government Auditing Standards</i>	41

FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

August 25, 2006

The Board of Directors
New Branches School

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of New Branches School (the "School") as of and for the year ended June 30, 2006, which collectively comprise the Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's elected officials and management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of New Branches School at June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006 on our consideration of New Branches School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of New Branches School. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Alden, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2006

As management of New Branches School, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with New Branches' financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of New Branches:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *school-wide* financial statements that provide both short-term and long-term information about New Branches' overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of New Branches, reporting operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

School-wide Statements

The school-wide financial statements report information about New Branches as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of New Branches' assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two school-wide statements report New Branches' net assets, and how they have changed. Net assets - the difference between assets and liabilities - is one way to measure New Branches' financial health or position.

- Over time, increases or decreases in New Branches' net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess New Branches' overall health, one should consider additional non-financial factors such as changes in pupil membership and the condition of the school's building and equipment.

In the school-wide financial statements, New Branches' activities are presented as follows:

- *Governmental activities*: New Branches' basic services are included here, such as regular and special education, instructional support, administration, community services and food service. State aid finances most of these activities.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2006

Condensed School -Wide Financial Information

The Statement of Net Assets provides financial information for New Branches as a whole.

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 242,475	\$ 321,153
Net capital assets	<u>80,343</u>	<u>87,080</u>
Total Assets	<u>322,818</u>	<u>408,233</u>
Liabilities		
Current liabilities	<u>74,464</u>	<u>45,075</u>
Net Assets		
Invested in capital assets	80,343	87,080
Unrestricted	<u>168,011</u>	<u>276,078</u>
Total Net Assets	<u>\$ 248,354</u>	<u>\$ 363,158</u>

The results of the fiscal year's operations for New Branches as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2006

The Statement of Activities presents changes in net assets from operating results:

	<u>2006</u>	<u>2005</u>
Program Revenues		
Charges for services	\$ 26,138	\$ 31,596
Operating grants	99,838	89,283
General Revenues		
State school aid, unrestricted	898,395	908,834
Interest earnings	2,144	4,218
Other	43,376	34,470
Total Revenues	<u>1,069,891</u>	<u>1,068,401</u>
Expenses		
Instruction	633,226	594,991
Supporting services	494,208	466,623
Community services	20,689	21,496
Food service	36,572	29,661
Total Expenses	<u>1,184,165</u>	<u>1,112,771</u>
Decrease in net assets	(114,804)	(44,370)
Net Assets - Beginning of Year	<u>363,158</u>	<u>407,528</u>
Net Assets - End of Year	<u><u>\$ 248,354</u></u>	<u><u>\$ 363,158</u></u>

Financial Analysis of the School as a Whole

New Branches' financial position is the product of many factors. The increase in revenue was the direct result of the Seed Foundation's contribution to building improvements.

Unrestricted state aid accounted for most of New Branches's revenue, contributing about 84 percent of every dollar raised. Another 9 percent came from state and federal aid for specific programs and the remainder from fees charged for services and miscellaneous sources.

New Branches's expenses are predominantly related to instructing students (53 percent). Instruction support, administration and operation and maintenance accounted for 41 percent of total costs. Technology and child care expenses accounted for the remaining 6 percent of the total costs. The most significant contributors to higher costs were salary, retirement and health insurance increases.

Total expenses surpassed revenues, decreasing net assets by \$114,804.

New Branches has been able to continue to balance the General Fund budget through more stringent purchasing controls and withdrawals from financial reserves.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2006

Fund Financial Statements

The fund financial statements provide more detailed information about New Branches' funds, focusing on its most significant or "major" fund (the General Fund) - not the school as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

New Branches utilizes only one kind of fund:

- *Governmental funds:* All of New Branches' basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance school programs. Because this information does not encompass the additional long-term focus of the school-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Financial Analysis of the School's Funds

New Branches uses funds to record and analyze financial information. New Branches' funds are described as follows:

Major Fund

The General Fund is New Branches's primary operating fund. The General Fund had total revenues of \$1,040,727, total expenditures of \$1,141,875, and total other financing uses of \$6,920. It ended the fiscal year with a fund balance of \$166,420, down from \$274,488 as of June 30, 2005. The decrease was primarily due to a level amount of State funding and increases in instructional costs.

Nonmajor Fund

New Branches operates one nonmajor Special Revenue Fund, for the food service program. Total revenues and other financing sources were \$36,084, with total expenditures of \$36,083. The ending fund balance was \$1,591.

General Fund Budgetary Highlights

New Branches revised the annual operating budget twice during the year. These budget amendments fell into the following categories:

- Changes made in February to reflect actual grant awards and to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Final changes made in June for increases in appropriations to prevent budget overruns.
- Although the School's final budget for the General Fund anticipated expenditures would exceed revenues by \$117,753, the actual results for the year show a \$108,068 deficit for the fiscal year.
- Actual revenues were \$3,156 higher than expected, due mainly to increased donations and child care fees.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2006

- Actual expenditures were \$6,048 below budget, due primarily to various reductions made during the year and unused contingency funds.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, New Branches had invested a total of \$197,103 in capital assets, including land improvements, building improvements and furniture and equipment. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of capital assets at June 30, 2006 are as follows:

Land improvements	\$ 9,784
Building improvements	9,127
Furniture and equipment	<u>61,432</u>
Net Capital Assets	<u><u>\$ 80,343</u></u>

Long-Term Debt

New Branches has no outstanding long-term debt.

Factors Bearing on the School's Future

At the time these financial statements were prepared and audited, New Branches was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The School has experienced increases in health insurance premium costs over the past two years. These increases have averaged in excess of 17%. Projections indicate these trends will continue, which will be a huge financial burden to the School's General Fund.
- Longevity increases tied to wage and salary schedules continue to drive up employee costs.
- The current state of the Michigan economy has created a financial hardship on most schools in the State. State funding for schools in 2005-2006 increased \$175 per pupil from the prior year. Funding in 2006-2007 will increase \$175 per pupil. However, this increase is insufficient to cover the cost of salary and benefit increases. If this trend continues for any length of time, our financial position will worsen, causing reductions in academic programs and services to our students.
- Enrollment is a key concern of the new administration. Retaining and recruiting students in fifth and sixth grades is challenging, as other area public schools change their grade structures for middle school for sixth through eighth grades.

Contacting the School's Financial Management

This financial report is designed to provide New Branches's parents, citizens, customers, investors and creditors with a general overview of New Branches's finances and to demonstrate New Branches's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director's Office, New Branches School, 256 Alger SE., Grand Rapids, Michigan 49507.

BASIC FINANCIAL STATEMENTS

NEW BRANCHES SCHOOL
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash equivalents (Note B)	\$ 70,649
Accounts receivable	8,096
Due from other governmental units (Note C)	163,479
Inventory (Note A)	<u>251</u>
Total Current Assets	<u>242,475</u>
Noncurrent Assets	
Capital assets (Note E)	197,103
Less accumulated depreciation	<u>(116,760)</u>
Total Noncurrent Assets	<u>80,343</u>
Total Assets	<u>322,818</u>
Liabilities	
Current Liabilities	
Accounts payable	11,910
Due to other governmental units	21,188
Salaries payable	<u>41,366</u>
Total Liabilities	<u>74,464</u>
Net Assets	
Invested in capital assets	80,343
Unrestricted	<u>168,011</u>
Total Net Assets	<u><u>\$ 248,354</u></u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 633,226	\$ -	\$ 79,556	\$ (553,670)
Supporting services	494,208	-	-	(494,208)
Community services	20,689	17,256	-	(3,433)
Food service	36,572	8,882	20,282	(7,408)
Total Governmental Activities	<u>\$ 1,184,695</u>	<u>\$ 26,138</u>	<u>\$ 99,838</u>	<u>(1,058,719)</u>
	General Revenues			
	State school aid, unrestricted			898,395
	Interest earnings			2,144
	Other			43,376
	Total General Revenues			<u>943,915</u>
	Change in Net Assets			(114,804)
	Net Assets - Beginning of Year			<u>363,158</u>
	Net Assets - End of Year			<u>\$ 248,354</u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Assets			
Cash equivalents (Note B)	\$ 70,321	\$ 328	\$ 70,649
Accounts receivable	6,834	1,262	8,096
Due from other governmental units (Note C)	163,479	-	163,479
Inventory (Note A)	-	251	251
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u><u>\$ 240,634</u></u>	<u><u>\$ 1,841</u></u>	<u><u>\$ 242,475</u></u>
 Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 11,910	\$ -	\$ 11,910
Due to other governmental units	20,938	250	21,188
Salaries payable	41,366	-	41,366
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>74,214</u>	<u>250</u>	<u>74,464</u>
 Fund Balances			
Unreserved:			
Undesignated, reported in:			
General fund	166,420	-	166,420
Special revenue fund	-	1,591	1,591
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>166,420</u>	<u>1,591</u>	<u>168,011</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u><u>\$ 240,634</u></u>	<u><u>\$ 1,841</u></u>	<u><u>\$ 242,475</u></u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total governmental fund balances	\$ 168,011
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$197,103 and accumulated depreciation is \$116,760.	<u>80,343</u>
Total net assets - governmental activities	<u><u>\$ 248,354</u></u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues			
Local sources	\$ 62,776	\$ 8,882	\$ 71,658
State sources	926,897	656	927,553
Federal sources	48,480	19,626	68,106
Interdistrict sources	2,574	-	2,574
	<u>1,040,727</u>	<u>29,164</u>	<u>1,069,891</u>
Total Revenues			
Expenditures			
Current:			
Instruction	624,122	-	624,122
Supporting services	497,064	-	497,064
Community services	20,689	-	20,689
Food service	-	36,083	36,083
	<u>1,141,875</u>	<u>36,083</u>	<u>1,177,958</u>
Total Expenditures			
Excess (Deficiency) of Revenues			
Over Expenditures	<u>(101,148)</u>	<u>(6,919)</u>	<u>(108,067)</u>
Other Financing Sources (Uses)			
Transfers in	-	6,920	6,920
Transfers out	(6,920)	-	(6,920)
	<u>(6,920)</u>	<u>6,920</u>	<u>-</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	(108,068)	1	(108,067)
Fund Balances, Beginning of Year	<u>274,488</u>	<u>1,590</u>	<u>276,078</u>
Fund Balances, End of Year	<u><u>\$ 166,420</u></u>	<u><u>\$ 1,591</u></u>	<u><u>\$ 168,011</u></u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2006

Net change in fund balances - total governmental funds \$ (108,067)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities, the cost of these assets is capitalized
and the cost is allocated over their estimated useful lives as deprecia-
tion expense. This is the amount by which depreciation exceeded
capital outlays in the current period:

	Capital outlays	\$ 5,848	
	Depreciation expense	(12,585)	(6,737)
Total changes in net assets - governmental activities		\$	(114,804)

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 52,503	\$ 59,400	\$ 62,776	\$ 3,376
State sources	926,337	926,903	926,897	(6)
Federal sources	48,694	48,694	48,480	(214)
Interdistrict sources	2,574	2,574	2,574	-
Total Revenues	1,030,108	1,037,571	1,040,727	3,156
Expenditures				
Current:				
Instruction:				
Basic programs	514,021	504,277	502,142	2,135
Added needs	121,186	124,161	121,980	2,181
Supporting services:				
Pupil services	30,828	30,828	32,709	(1,881)
Instructional staff services	9,293	9,609	10,628	(1,019)
General administrative services	138,795	134,215	133,974	241
School administrative services	91,155	102,011	102,377	(366)
Business services	24,229	21,685	21,860	(175)
Operation and maintenance services	189,893	193,575	188,958	4,617
Pupil transportation services	303	303	303	-
Central services	8,338	6,268	6,255	13
Community services	22,458	20,991	20,689	302
Total Expenditures	1,150,499	1,147,923	1,141,875	6,048
Excess (Deficiency) Of Revenues Over Expenditures	(120,391)	(110,352)	(101,148)	9,204
Other Financing Sources (Uses)				
Transfers out	(9,228)	(7,401)	(6,920)	481
Net Change in Fund Balances	(129,619)	(117,753)	(108,068)	9,685
Fund Balances, July 1	274,488	274,488	274,488	-
Fund Balances, June 30	\$ 144,869	\$ 156,735	\$ 166,420	\$ 9,685

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2006

Note A – Summary Of Significant Accounting Policies

New Branches School received its charter under Public Act 416 of 1994 from Central Michigan University on May 18, 1995. As part of the chartering process, New Branches was instructed to file restated Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Central Michigan University, New Branches is to act exclusively as a governmental agency and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Central Michigan University provides certain services to New Branches including approval of New Branches operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Central Michigan University is paid 3% of State Aid payments received by New Branches for such services.

The School is governed by a Board of Directors consisting of seven members approved by Central Michigan University and administered by a Director who is appointed by the aforementioned Board. The School provides educational services for approximately 126 full-time students as specified by state statute and Board of Directors policy. These services include elementary education, preschool programs, special education, community services and general administrative services.

The financial statements of New Branches School (the “School”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the School’s accounting policies are described below.

1. The Reporting Entity

The financial reporting entity consists of a primary government and its component units. The School is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the School for financial statement presentation purposes, and the School is not included in any other governmental reporting entity. Consequently, the School’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. School-Wide and Fund Financial Statements

School-Wide Financial Statements - The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the School as a whole. The reported information includes all of the nonfiduciary activities of the School. The School does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the School. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The School does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The School’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2006

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the School's only major fund. The Food Service Fund is the School's only nonmajor fund.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the school-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

School-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2006

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Fund maintained by the School is the Food Service Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the school-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. New Branches School has also adopted a budget for its Special Revenue Fund. A district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Directors. Expenditures may not legally exceed budget appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

New Branches School utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The Board of Directors and the Director establish proposed operating budgets for the ensuing fiscal year.
- Preliminary operating budgets are submitted to the Board of Directors by the Director. These budgets include proposed expenditures and the means of financing them.
- After the budgets are finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2006

- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which may include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the school-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$1,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, building improvements and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Building improvements	20 years
Furniture and equipment	3-10 years

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2006

10. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

11. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Cash Equivalents

Depositories actively used by the School during the year are detailed as follows:

1. Lake Michigan Credit Union
2. Macatawa Bank

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2006

Balances at June 30, 2006 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Cash equivalents	<u><u>\$ 70,649</u></u>
------------------	-------------------------

Cash equivalents consist of bank and/or credit union checking, savings and money market accounts.

Custodial credit risk

Custodial credit risk is the risk that in the event of bank or credit union failure, the School's cash equivalents may not be returned to the School. Protection of School cash equivalents is provided by the Federal Deposit Insurance Corporation and the National Credit Union Association. At year end, the carrying amount of the School's cash equivalents was \$70,649 and the bank balance was \$85,300. Of the bank balance, \$85,300 was covered by federal depository insurance.

Note C – State School Aid

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of School pupil membership in February, 2005 and September, 2005. The 2005-06 "Foundation Allowance" for New Branches School was \$7,116 for 126.25 "Full Time Equivalent" students, generating \$927,537 in state aid payments to the School of which \$163,479 was paid to the School in July and August, 2006 and included in "Due From Other Governmental Units" of the General Fund.

Note D – Interfund Transfers

Interfund transfers during the year ended June 30, 2006 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 6,920
Special Revenue Funds		
Food Service Fund:		
General Fund	<u>6,920</u>	<u>—</u>
Total All Funds	<u>\$ 6,920</u>	<u>\$ 6,920</u>

Interfund transfers are essential to maintain the Special Revenue Fund of the School. The transfer assists the special revenue fund with payroll and employee benefits for food service employees. The School's intent is to appropriate expenditures to these funds on an actual basis to show the true costs of operation for these programs. By making the interfund transfer these expenditures can be allocated to each program as they occur.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2006

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balances July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2006</u>
Capital assets being depreciated:				
Land improvements	\$ 12,831	\$ —	\$ —	\$ 12,831
Building improvements	18,898	—	—	18,898
Furniture and equipment	159,526	5,848	—	165,374
	<u>191,255</u>	<u>\$ 5,848</u>	<u>\$ —</u>	<u>197,103</u>
Totals at historical cost				
Less accumulated depreciation for:				
Land improvements	2,417	\$ 630	\$ —	3,047
Building improvements	8,113	1,658	—	9,771
Furniture and equipment	93,645	10,297	—	103,942
	<u>104,175</u>	<u>\$ 12,585</u>	<u>\$ —</u>	<u>116,760</u>
Total accumulated depreciation				
	<u>\$ 87,080</u>			<u>\$ 80,343</u>
Net Capital Assets				

Depreciation expense was charged to School activities as follows:

Governmental activities:	
Instruction	\$ 9,104
Supporting services	2,992
Food service	489
	<u>\$ 12,585</u>

Note F – Operating Lease/Related Party Transactions

On January 12, 2004, New Branches School entered into an operating lease agreement with New Branches Seed Foundation for the rental of classroom and other facilities located at 256 Alger SE and partial use of the facility at 304 Alger SE. New Branches School shall pay as rent the sum of \$10,000 per month or \$120,000 per year. The first payment was due December 1, 2003 and will continue for 5 years. As part of the lease agreement, New Branches School shall at its own expense keep and maintain all parts or portions of the property, including the repair or replacement of roofs, heating and plumbing during the primary term of the lease. The New Branches School Director/Principal is also on the Board of Directors of the New Branches Seed Foundation.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2006

Note G – Retirement Plan

Substantially all School employees participate in the Michigan Public School Employees' Retirement System (MPERS), a multiple employer public retirement system. The School payroll for employees covered by MPERS for the year ended June 30, 2006 was \$556,852. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

Schools in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 14.87% for the fiscal year ending September 30, 2005 and 16.34% for the fiscal year beginning October 1, 2005. The School's contributions to the plan for the fiscal years ended June 30, 2006, 2005 and 2004 were \$96,811, \$81,579 and \$71,787, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2004 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$46,317. The MPERS' net assets available for benefits on that date were \$38,784 leaving an unfunded pension benefit obligation of \$7,533. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2005 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$1,548 from September 30, 2003 to September 30, 2004. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2006

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the School's total contribution to the MPSERS as discussed above.

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the School and not required to be accounted for in another fund.

NEW BRANCHES SCHOOL
General Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash equivalents	\$ 70,321	\$ 132,562
Accounts receivable	6,834	7,628
Due from other governmental units	<u>163,479</u>	<u>178,407</u>
Total Assets	<u><u>\$ 240,634</u></u>	<u><u>\$ 318,597</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 11,910	\$ 26,191
Due to other governmental units	20,938	17,918
Salaries payable	<u>41,366</u>	<u>-</u>
Total Liabilities	<u>74,214</u>	<u>44,109</u>
Fund Balances		
Unreserved:		
Undesignated	<u>166,420</u>	<u>274,488</u>
Total Liabilities and Fund Balances	<u><u>\$ 240,634</u></u>	<u><u>\$ 318,597</u></u>

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Local sources:		
Interest earnings:		
Interest on deposits	\$ 2,144	\$ 4,218
Other local revenue:		
Child care fees	17,256	22,996
Donations	39,770	31,658
Miscellaneous	3,606	2,812
	<u>60,632</u>	<u>57,466</u>
Total local sources	62,776	61,684
State sources:		
State aid	926,897	924,878
Federal sources:		
Title I	25,434	17,413
Title V	422	82
Title IIA	5,277	8,755
I.D.E.A. program	16,883	16,290
Drug free schools	464	641
Total federal sources	48,480	43,181
Interdistrict sources:		
Special education - county	<u>2,574</u>	<u>13,603</u>
Total Revenues	<u><u>\$ 1,040,727</u></u>	<u><u>\$ 1,043,346</u></u>

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries:		
Teachers	\$ 278,668	\$ 256,938
Teaching assistants	51,418	49,313
Substitutes	5,671	8,965
Employee benefits:		
Employee insurance	59,319	62,275
Retirement	54,450	46,416
Social Security	25,178	24,370
Workers' compensation insurance	1,446	1,228
Local travel	848	285
Teaching supplies	16,860	13,830
Textbooks	6,769	8,311
Periodicals	1,253	520
Miscellaneous supplies	(1,236)	1,523
New equipment and furniture	1,498	17,309
Total basic programs	502,142	491,283
Added needs:		
Special education:		
Salaries:		
Teachers	14,068	-
Teaching assistants	11,553	-
Employee benefits:		
Employee insurance	1,289	-
Retirement	4,186	-
Social Security	1,960	-
Workers' compensation insurance	123	-
Professional services	-	20,464
Supplies	360	-
	33,539	20,464
Compensatory education:		
Salaries:		
Teachers	35,505	31,392
Teaching assistants	22,863	17,676
Employee benefits:		
Employee insurance	5,127	1,459
Tuition reimbursement	-	625
Retirement	9,431	7,217
Social Security	4,444	3,957
Workers' compensation insurance	265	196
Professional development	9,278	9,358
Teaching supplies	1,528	1,798
Textbooks	-	371
	88,441	74,049
Total added needs	121,980	94,513

(Continued)

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Supporting services:		
Pupil services:		
Physical therapist services:		
Instructional services	\$ 4,439	\$ -
Psychological services:		
Instructional services	3,442	-
Speech pathology services:		
Instructional services	12,016	-
Social worker services:		
Instructional services	5,696	-
Teacher consultant services:		
Instructional consulting	6,288	-
Miscellaneous	828	828
	<u>7,116</u>	<u>828</u>
Total pupil services	<u>32,709</u>	<u>828</u>
Instructional staff services:		
Improvement of instruction:		
Teachers salaries	-	113
Employee benefits:		
Tuition reimbursement	-	1,605
Retirement	-	17
Social Security	-	9
Professional development	7,349	-
	<u>7,349</u>	<u>1,744</u>
Educational media services:		
Periodicals	-	743
Other instructional staff services:		
Teacher salaries	2,645	5,517
Employee benefits:		
Tuition reimbursement	-	1,968
Retirement	432	821
Social Security	202	319
	<u>3,279</u>	<u>8,625</u>
Total instructional staff services	<u>10,628</u>	<u>11,112</u>
General administrative services:		
Board of education:		
Audit services	8,050	8,000
Liability insurance	2,518	2,376
Reporting and materials	85	153
Miscellaneous	10	816
	<u>10,663</u>	<u>11,345</u>

(Continued)

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Executive administration:		
Salaries:		
Director	\$ 30,866	\$ 57,588
Business operations manager	42,692	-
Employee benefits:		
Employee insurance	3,976	5,361
Tuition reimbursement	422	-
Retirement	11,866	8,480
Social Security	5,676	4,405
Workers' compensation insurance	325	155
Charter oversight fees	27,045	27,226
Legal services	-	74
Local travel	166	54
Miscellaneous	277	16
	<u>123,311</u>	<u>103,359</u>
Total general administrative services	<u>133,974</u>	<u>114,704</u>
School administrative services:		
Office of the principal:		
Salaries:		
Principal	25,464	63,346
Clerical	23,633	16,799
Employee benefits:		
Employee insurance	4,189	5,380
Tuition reimbursement	422	125
Retirement	7,906	11,788
Social Security	3,906	6,133
Workers' compensation insurance	204	215
Other employee benefits	251	812
Local travel	222	-
Telephone	1,807	1,695
Mailing and postage	604	754
Program advertising	8,802	2,791
Personnel recruitment	-	1,190
Printing and binding	1,444	780
Equipment repair and maintenance	4,908	4,917
Office supplies	7,607	2,013
New equipment and furniture	4,848	1,217
Dues and fees	370	982
Miscellaneous	5,790	3,117
	<u>102,377</u>	<u>124,054</u>
Total school administrative services		
Business services:		
Fiscal services:		
Bookkeeping salaries	16,877	12,684
Employee benefits:		
Employee insurance	903	573
Retirement	2,706	1,826
Social Security	1,291	970
Workers' compensation insurance	75	34

(Continued)

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Fiscal services: (Continued)		
Local travel	\$ 8	\$ 120
Miscellaneous	-	304
Total business services	<u>21,860</u>	<u>16,511</u>
Operation and maintenance services:		
Operation and maintenance:		
Custodial salaries	3,336	1,824
Employee benefits:		
Retirement	565	257
Social Security	195	141
Workers' compensation insurance	4	89
Water and sewer	1,145	912
Waste and trash disposal	1,367	653
Insurance and bonds	9,540	6,633
Land/building repair and maintenance	29,886	40,494
Equipment repair and maintenance	780	1,526
Grounds repair and maintenance	586	510
Other repair and maintenance	174	703
Building rental	120,000	120,000
Heating	10,941	7,026
Electricity	8,480	7,450
Custodial supplies	107	114
New equipment and furniture	1,852	-
Total operation and maintenance services	<u>188,958</u>	<u>188,332</u>
Pupil transportation services:		
Pupil transportation:		
Vehicle insurance	303	303
Vehicle rental	-	124
Total pupil transportation services	<u>303</u>	<u>427</u>
Central services:		
Planning and evaluation:		
Professional services	500	235
Staff/personnel services:		
Professional services	728	-
Technology services:		
Salaries	1,219	1,912
Employee benefits:		
Retirement	160	307
Social Security	153	146
Workers' compensation insurance	5	8
Professional services	3,490	3,395
	<u>5,027</u>	<u>5,768</u>
Total central services	<u>6,255</u>	<u>6,003</u>

(Continued)

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Community services:		
Community activities:		
Miscellaneous supplies	\$ 758	\$ -
Child care:		
Salaries:		
Teachers	9,129	8,315
Teaching assistants	5,777	7,880
Retirement	2,422	2,382
Social Security	1,113	1,187
Workers' compensation insurance	63	63
Miscellaneous supplies	1,277	-
Miscellaneous	150	754
	<u>19,931</u>	<u>20,581</u>
Community and special projects:		
Miscellaneous supplies	-	540
Fundraising materials	-	375
	<u>-</u>	<u>915</u>
Total community services	<u>20,689</u>	<u>21,496</u>
Capital outlay:		
Architectural services	-	1,751
Total Expenditures	<u><u>\$ 1,141,875</u></u>	<u><u>\$ 1,071,014</u></u>

NONMAJOR GOVERNMENTAL FUND

NEW BRANCHES SCHOOL
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	2006			2005
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Sales and admissions	\$ 8,628	\$ 8,882	\$ 254	\$ 8,600
State sources	656	656	-	415
Federal sources	19,196	19,626	430	16,040
Total Revenues	<u>28,480</u>	<u>29,164</u>	<u>684</u>	<u>25,055</u>
Expenditures				
Current:				
Food service	<u>35,881</u>	<u>36,083</u>	<u>(202)</u>	<u>29,172</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(7,401)</u>	<u>(6,919)</u>	<u>482</u>	<u>(4,117)</u>
Other Financing Sources				
Transfers in	<u>7,401</u>	<u>6,920</u>	<u>(481)</u>	<u>4,115</u>
Net Change in Fund Balances	-	1	1	(2)
Fund Balances, July 1	<u>1,590</u>	<u>1,590</u>	-	<u>1,592</u>
Fund Balances, June 30	<u>\$ 1,590</u>	<u>\$ 1,591</u>	<u>\$ 1</u>	<u>\$ 1,590</u>

SPECIAL REVENUE FUND

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the School.

NEW BRANCHES SCHOOL
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash equivalents	\$ 328	\$ -
Accounts receivable	1,262	1,933
Due from other governmental units	-	372
Inventory	<u>251</u>	<u>251</u>
Total Assets	<u><u>\$ 1,841</u></u>	<u><u>\$ 2,556</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ -	\$ 673
Due to other governmental units	<u>250</u>	<u>293</u>
Total Liabilities	<u>250</u>	<u>966</u>
Fund Balances		
Unreserved:		
Undesignated	<u>1,591</u>	<u>1,590</u>
Total Liabilities and Fund Balances	<u><u>\$ 1,841</u></u>	<u><u>\$ 2,556</u></u>

NEW BRANCHES SCHOOL
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 8,564	\$ 8,394
Adult lunches	318	206
	<u>8,882</u>	<u>8,600</u>
State sources	656	415
Federal sources	<u>19,626</u>	<u>16,040</u>
Total Revenues	<u>29,164</u>	<u>25,055</u>
Expenditures		
Current:		
Food service:		
Director's salary	16,853	14,095
Employee benefits:		
Employee insurance	3,981	4,073
Retirement	2,739	2,080
Social Security	1,289	1,078
Workers' compensation insurance	37	330
Food	6,727	6,405
Delivery	686	333
Nonedible supplies	1,457	778
Commodity usage	215	-
New equipment	<u>2,099</u>	<u>-</u>
Total Expenditures	<u>36,083</u>	<u>29,172</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(6,919)</u>	<u>(4,117)</u>
Other Financing Sources		
Interfund transfers in	<u>6,920</u>	<u>4,115</u>
Net Change in Fund Balances	1	(2)
Fund Balances, July 1	<u>1,590</u>	<u>1,592</u>
Fund Balances, June 30	<u><u>\$ 1,591</u></u>	<u><u>\$ 1,590</u></u>

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

August 25, 2006

The Board of Directors
New Branches School

We have audited the basic financial statements of New Branches School as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether New Branches School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Branches School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, the Michigan Department of Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

Hungerford, Aldrin, Nichols & Carter, P.C.

CPAs AND CONSULTANTS

August 25, 2006

The Board of Directors
New Branches School

The following comments pertain to our audit of the financial records of New Branches School as of and for the year ended June 30, 2006. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of New Branches School:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered New Branches School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by New Branches School are described in Note A in the Notes to Basic Financial Statements.

Significant Audit Adjustments

During the course of our audit no adjustments of a significant nature were made to the accounting records of the District.

Proposed Audit Adjustments

There were no material proposed audit adjustments not recorded by New Branches School.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of New Branches School to the Business Director as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The General Fund Balance of the District decreased by \$108,068 to \$166,420 at June 30, 2006. This balance represents approximately 13 percent of the District's 2006-07 expenditure budget, down from 24 percent at June 30, 2005. Maintaining a fund balance of at least 25 to 30 percent of the ensuing year's expenditure budget is advisable for New Branches School. This level of fund balance alleviates the School from having to borrow for short term operating purposes, gives the School more stable operating funds during the year and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that New Branches School has an adequate system of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with New Branches School's Business Director, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the School in maintaining and improving its systems.

* * * * *

This communication is intended solely for the information and use of the New Branches School Board of Directors, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to New Branches School and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them

Hungerford, Alden, Nichols & Martin, P.C.

Certified Public Accountants